

FinReg: It now appears that FinReg is the generally accepted shorthand name for the financial regulatory reform bill that the president will sign into law this week. As most readers of this missive know, I opposed this bill because it will not solve the problems that led to the 2008 financial crisis and it will make consumer and small business credit more difficult to get and more expensive. Therefore, it will be another addition to the list of bills (health care, cap and trade, stimulus, etc.) which will increase taxes, lower growth, and destroy even more private sector jobs in this country.

The bill has 3 basic elements which I will describe briefly below. Also, I will tell you what I think the economic and societal effects will be. When all of this becomes apparent during the next 12 months, remember that this is the piece of legislation driving it.

- **Derivatives regulation:** I support much of this effort, unfortunately however, the bill fails to create sufficient exceptions for end users of derivatives (such as farmers), who do not use derivatives as an investment, but rather as a “hedge” to insure against market volatility in a non-financial product or material they actually use in their given daily businesses. So, the unnecessary parts of this section would make it more expensive for end users to do business. That means less growth and fewer jobs.

- **Too Big to Fail:** There will still be 'too big to fail,' as this bill more or less perpetuates the current system and its risks. According to the bill, the financial industry (including institutions that are not too big to fail) will be self-funding their bail-out fund, instead of taxpayers (Good!); but there will still be incentive for banks to take big risks knowing that there is an “insurance” fund to “save” the system. Enormous business is only somewhat better for society than enormous government. If you are that big, you ought to have restrictions and reserve requirements that make your collapse nearly impossible. Such requirements will impact return on investment for such huge entities. So, if you don't want to meet those requirements, then a company can choose to break themselves up. In my opinion, this bill does not adequately address the underlying problem of systemic risk.

So-called Consumer Protections: The elements in this bill euphemistically labeled as “consumer protections” are actually the worst parts of it. Consumer and small business loans will be even harder to get and more expensive. Also, get ready for your bank to tell you that your ‘small balance’ checking account is no longer free. The new regulatory burden and substantial new taxes on banks will make many checking and even savings accounts and loans unprofitable for banks. So, they will either just stop them or charge you more.

Of course, the bill does not deal with the single biggest contributor to the financial meltdown, the structure and excesses of Fannie Mae and Freddie Mac. These entities continue as subsidiaries of the federal government and are unaffected by the bill. Now we wouldn't want to put any regulation or restrictions on a government entity now would we? Heavy sarcasm (:

When all of this happens over the next year, remember who caused it - the people who voted for and supported this bill.

Until next time, I remain respectfully,

Congressman John Campbell
Member of Congress